

# **Fiscal Services Division**

## **Legislative Services Agency**

### **Fiscal Note**

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HF 848 - School Foundation Level (LSB 2134 HZ)

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Fiscal Note Version - New

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#### **Description**

House File 848 amends Section 257.1, Code of Iowa, to incrementally phase in an increase in the foundation level for regular program costs and school special education costs from the current 87.5% to 100.0% beginning in FY 2007 through FY 2013. The Area Education Agency (AEA) special education foundation level remains at 79.0%.

The Bill creates a Local Workforce and Economic Development Fund at each community college funded through a property tax. The bases for determining the property tax rate are the community colleges budgeted expenditures for the employer contributions under the Federal Insurance Contributions Act (FICA), the employer contributions to employees' retirement systems, utility costs, and ten cents per thousand dollars of assessed valuation. The property tax is phased in over four years in 20.0% increments to a maximum of 80.0% of the identified budgeted costs. The Bill specifies how these funds may be used.

#### **Assumptions**

K-12 School Foundation Aid:

- The allowable growth rate throughout the phase-in is 4.0%.
- Budget enrollments are based on Department of Education 2005 preliminary projections. Enrollment projections for FY 2008 to FY 2010 are reduced by 0.25% to accommodate the preliminary FY 2007 projection adjustment.
- The \$7.5 million AEA reduction is applied to FY 2006 and later years, rather than the \$19.3 million reduction applied in FY 2005.
- FY 2005 taxable valuations decreased by 2.9%; FY 2006 valuations are estimated to increase 2.3%; FY 2007 valuations are projected to increase by 2.0%; FY 2008 are projected to increase by 1.0%; FY 2009 are projected to increase by 2.0%; and FY 2010 are projected to increase by 1.0%.
- Weighting increases include: 10.0% annually for Shared Teacher and Pupil; 10.0% annually for ESL; no change for At-Risk students; and Special Education at 3.5% in FY 2005, 1.1% in FY 2006, and 3.5% in FY 2007 through FY 2010.
- The Department of Education provides enrollment projections through FY 2010; fiscal years 2011 through 2013 are increased proportionately allowing for property tax equalization occurring in alternate years.

Community College Local Workforce and Economic Development Fund:

- Based on recent historical expenditures by the community colleges:
  - Salaries are the basis for FICA and retirement contributions and increase 4.5% annually.
  - Utility costs increase 9.4% annually.
  - Taxable values increase at the rates specified for the K-12 foundation formula.

## **Fiscal Impact**

House File 848 changes the funding stream for K-12 school districts. It does not change the total amount of funding K-12 schools receive. The following table shows the costs under current law and the proposed changes (totals may not add due to rounding).

### **Dollars in Millions**

<b>Fiscal Year</b>	<b>Current</b>			<b>Proposed</b>		
	<b>State Aid</b>	<b>Property Taxes</b>	<b>Total Funding</b>	<b>State Aid</b>	<b>Property Taxes</b>	<b>Total Funding</b>
FY 2005	\$ 1,881.2	\$ 1,025.7	\$ 2,907.0	\$ 1,881.2	\$ 1,025.7	\$ 2,907.0
FY 2006	1,974.6	1,045.1	3,019.7	1,974.6	1,045.1	3,019.7
FY 2007	2,074.1	1,072.9	3,147.0	2,125.3	1,021.7	3,147.0
FY 2008	2,182.3	1,093.8	3,276.2	2,289.6	986.5	3,276.2
FY 2009	2,287.9	1,125.0	3,412.9	2,455.5	957.4	3,412.9
FY 2010	2,400.8	1,151.5	3,552.3	2,633.8	918.5	3,552.3
FY 2011	2,519.4	1,181.9	3,701.3	2,829.8	871.5	3,701.3
FY 2012	2,647.3	1,205.6	3,852.9	3,041.9	811.0	3,852.9
FY 2013	2,778.0	1,236.5	4,014.5	3,268.2	746.3	4,014.5

<b>Fiscal Year</b>	<b>Change</b>		
	<b>State Aid</b>	<b>Property Taxes</b>	<b>Total Funding</b>
FY 2005	\$ 0.0	\$ 0.0	\$ 0.0
FY 2006	0.0	0.0	0.0
FY 2007	51.2	-51.2	0.0
FY 2008	107.3	-107.3	0.0
FY 2009	167.6	-167.6	0.0
FY 2010	233.0	-233.0	0.0
FY 2011	310.4	-310.4	0.0
FY 2012	394.7	-394.7	0.0
FY 2013	490.2	-490.2	0.0

These changes produce incremental increases in funding for State foundation aid from the General Fund and corresponding decreases in foundation property taxes. The increased cost to the General Fund will increment by \$51.2 million in FY 2007, by an additional \$56.1 million in FY 2008, \$60.3 million in FY 2009, \$65.4 million in FY 2010, \$77.4 million in FY 2011, \$84.3 million in FY 2012, and \$95.5 million in the final year.

House File 848 increases funding for community colleges through property taxes as follows:

Area Education Agency		FY 2007		FY 2008		FY 2009		FY 2010	
		Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
I	Northeast	\$ 657,524	\$ 0.09	\$ 1,375,960	\$ 0.18	\$ 2,165,461	\$ 0.28	\$ 3,024,764	\$ 0.39
II	North Iowa	485,469	0.11	1,018,941	0.22	1,607,849	0.34	2,252,683	0.47
III	Iowa Lakes	536,424	0.15	1,133,967	0.32	1,801,330	0.49	2,542,188	0.69
IV	Northwest Iowa	222,482	0.09	466,342	0.19	735,107	0.29	1,028,602	0.41
V	Iowa Central	623,356	0.12	1,312,732	0.25	2,078,010	0.39	2,921,445	0.54
VI	Iowa Valley	503,213	0.15	1,063,587	0.32	1,689,206	0.50	2,383,516	0.70
VII	Hawkeye	709,394	0.11	1,491,113	0.24	2,356,091	0.37	3,305,951	0.51
IX	Eastern Iowa	953,797	0.10	2,002,799	0.20	3,162,337	0.32	4,433,042	0.44
X	Kirkwood	1,645,002	0.11	3,454,576	0.23	5,453,904	0.35	7,645,511	0.49
XI	DMACC	1,870,922	0.07	3,906,806	0.15	6,137,807	0.24	8,555,306	0.33
XII	Western Iowa	588,214	0.11	1,235,586	0.22	1,951,240	0.35	2,736,099	0.48
XIII	Iowa Western	640,444	0.11	1,350,459	0.23	2,140,920	0.36	3,014,194	0.50
XIV	Southwestern	239,548	0.11	504,199	0.23	797,853	0.35	1,121,153	0.49
XV	Indian Hills	712,819	0.18	1,500,044	0.37	2,371,241	0.58	3,330,251	0.80
XVI	Southeastern	423,643	0.14	891,168	0.30	1,408,629	0.47	1,977,786	0.65
Total		<u>\$ 10,812,249</u>	<u>\$ 0.11</u>	<u>\$ 22,708,279</u>	<u>\$ 0.22</u>	<u>\$ 35,856,986</u>	<u>\$ 0.34</u>	<u>\$ 50,272,491</u>	<u>\$ 0.47</u>

The above tax rates are the amount per thousand dollars of assessed valuation.

### **Sources**

Department of Management  
Department of Education  
Des Moines Area Community College

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April 11, 2005

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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